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President's report

Proposed loan and Debt Sustainability
Framework grant

Republic of Malawi

Transforming Agriculture through
Diversification and Entrepreneurship
Programme

Project ID: 2000001600

Note to Executive Board representatives

Focal points:

Technical questions:

Sara Mbago-Bhunu
East and Southern Africa Division
Regional Director
Tel.: +39 06 5459 2838
e-mail: s.mbago-bhunu@ifad.org

Ambrosio Barros
Country Director
Tel.: +27 11 517 1661
e-mail: a.nsinguibarros@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra
Chief
Institutional Governance and
Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

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- I. Negotiated financing agreement (to be tabled at the session)
- II. Logical framework

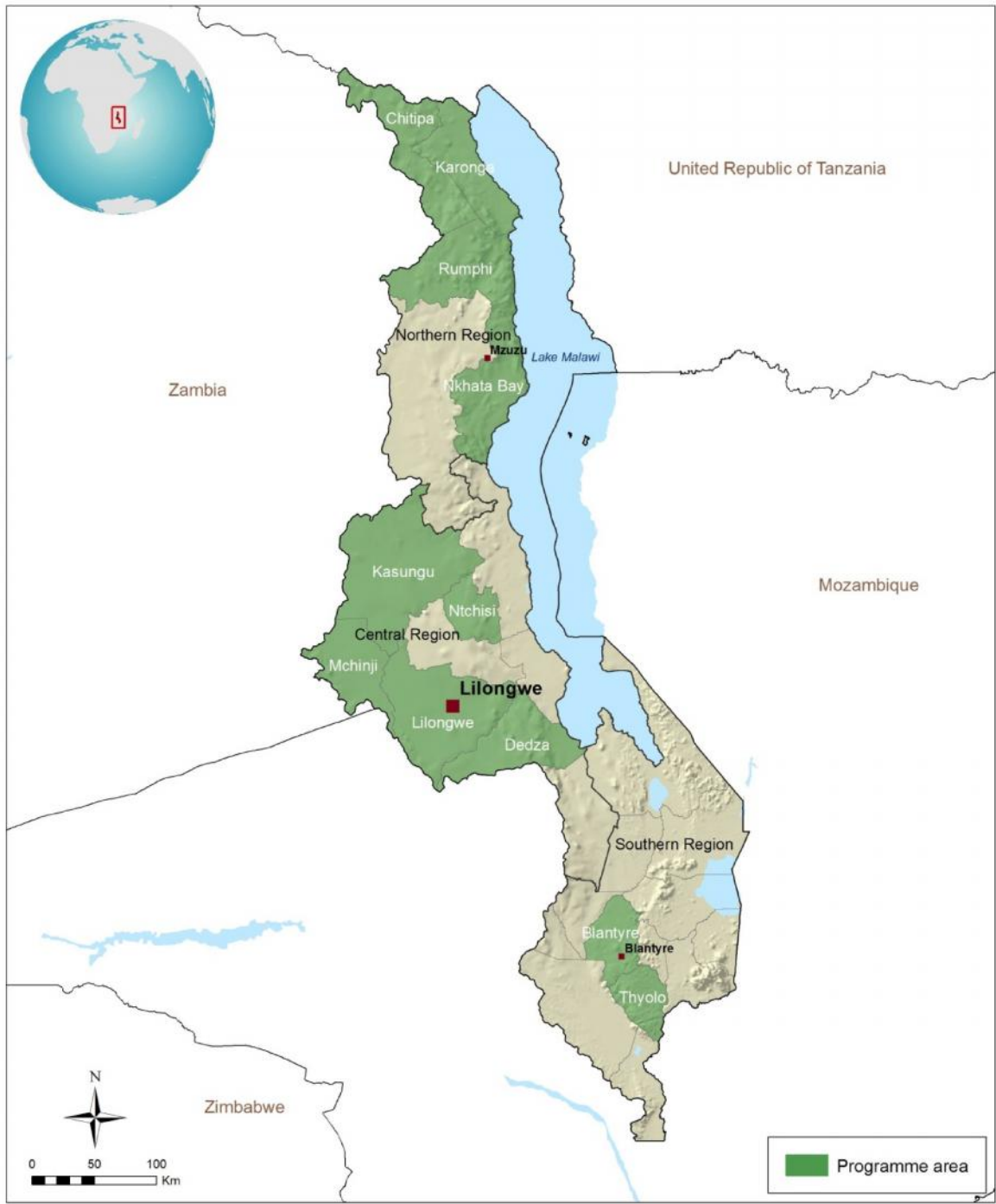
Programme delivery team


Regional Director:	Sara Mbago-Bhunu
Country Director:	Ambrosio Barros
Programme Technical Lead:	Zainab Sengalawe
Financial Management Officer:	Claudio Mainella
Climate and Environment Specialist:	Paxina Chileshe
Legal Officer:	Paul Edouard Clos

Abbreviations and acronyms

4Ps	public-private-producer partnerships
ACIF	Agricultural Commercialization and Innovation Fund
AWP/B	annual workplan and budget
COSOP	country strategic opportunities programme
EFA	Economic and Financial Analysis
EIRR	economic internal rate of return
ENPV	economic net present value
ESIA	environmental and social impact assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
FARMSE	Financial Access for Rural Markets, Smallholders and Enterprise Programme
FBO	farmer-based organization
FBS	farm business school
M&E	monitoring and evaluation
NAIP	National Agriculture Investment Plan
NAP	National Agriculture Policy
OFID	OPEC Fund for International Development
PMU	programme management unit
RLEEP	Rural Livelihoods and Economic Enhancement Programme
SDG	Sustainable Development Goal
SDR	social discount rate
SECAP	Social Environment and Climate Assessment Procedures
TRADE	Transforming Agriculture through Diversification and Entrepreneurship Programme
VC	value chain
VSLA	village savings and loan associations

Map of the programme area



 The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.
IFAD Map compiled by IFAD | 27-05-2019

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Republic of Malawi
Executing agency:	Ministry of Local Government and Rural Development
Total programme cost:	US\$125.4 million
Amount of IFAD loan:	US\$51.1 million
Terms of IFAD loan:	Highly concessional: Maturity period of 40 years, including a grace period of 10 years, with a fixed service charge as determined by the Fund at the date of approval
Amount of IFAD Debt Sustainability Framework grant:	US\$18.9 million
Cofinanciers:	OPEC Fund for International Development (OFID); Private sector
Amount of cofinancing:	OFID: US\$20.0 million Private sector: US\$11.7 million
Terms of cofinancing:	Loan
Contribution of borrower/recipient:	US\$15.3 million
Contribution of beneficiaries:	US\$8.3 million
Amount of IFAD climate finance:	US\$14.8 million
Cooperating institution:	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 61.

I. Context

A. National context and rationale for IFAD involvement

National context

1. The Republic of Malawi is a low-income country, with a per capita GDP of US\$338 in 2017. In that year the agricultural sector contributed about 30 per cent of GDP, 80 per cent of Malawi's foreign earnings and 77 per cent of total employment. Climate-related and political and governance shocks have contributed to economic stagnation and a low pace of poverty reduction. Public debt has doubled over the last decade, reaching 55 per cent of GDP in 2017.
2. The agricultural sector, largely rainfed and dominated by subsistence smallholder farmers, supports the livelihoods of the majority of its population, involving 78 per cent of total households. Crop production accounts for 74 per cent of all rural incomes. Productivity is low, exacerbated by a low uptake of improved farm inputs/technologies. About 55 per cent of farmers cultivate less than 1 hectare, making it difficult for them to produce a surplus for marketing.

Special aspects relating to IFAD's corporate mainstreaming priorities

3. In line with IFAD's mainstreaming commitments for the Eleventh Replenishment of IFAD's Resources, the programme has been classified as:
 - ☒ Climate-focused;
 - ☒ Gender-transformational;
 - ☒ Nutrition-sensitive; and
 - ☒ Youth-sensitive.
4. Environmental degradation and climate change are major development issues that have adversely impacted on food security, water quality and energy security.
5. The 2017 Gender Inequality Index for Malawi was 0.619, ranking it 148th out of 160 countries. Youth constitutes over 40 per cent of the population, with the youth unemployment rate exceeding 40 per cent in 2017. The agriculture sector offers many opportunities for job creation for youth, but their participation is constrained by challenges that include limited access to finance, land and inputs, limited capacity, and perceptions that farming is not a profitable business.
6. Malawi ranked 87th out of 119 countries on the 2018 Global Hunger Index and suffers from serious levels of hunger and malnutrition.

Rationale for IFAD involvement

7. IFAD has contributed to improving the livelihoods of 1.88 million rural poor households in Malawi, through investments totalling US\$226.9 million. In recent years there has been a strategic shift by the Government to commercialization of smallholder agriculture, through strengthening access to markets and financial services, as well as a focus on adaptation to climate change, as the key drivers for poverty reduction. In this regard, IFAD also realigned its support to the Government by supporting commodity development through the Rural Livelihoods and Economic Enhancement Programme (RLEEP, 2009-2017). RLEEP is the first value chain (VC) programme in Malawi to have piloted commercial partnerships, under the public-private-producer partnerships (4Ps) model.

8. The Transforming Agriculture through Diversification and Entrepreneurship Programme (TRADE) builds on RLEEP's results and responds to the 2017-2022 Malawi Growth and Development Strategy and the Government's priority areas as set out in the National Agriculture Policy (NAP) and the National Agriculture Investment Plan (NAIP). TRADE also contributes to strategic objective 2 (SO2) and SO3 of IFAD's Strategic Framework 2016-2025.

B. Lessons learned

9. TRADE builds on lessons from previous IFAD programmes in Malawi, the 2017 country programme evaluation of the Independent Office of Evaluation and its 2019 evaluation synthesis on "Inclusive Financial Services for the Rural Poor".
10. The country programme evaluation's recommendations were that future IFAD investments should: (i) diagnose the capacity of national and local government institutions; (ii) support and build on collective institutions for beneficiaries; (iii) enhance the resilience and climate change adaptability of smallholders' farming systems; and (iv) have a marketing development focus. TRADE has incorporated these recommendations, with its focus on strengthening farmers' organizations, agribusiness development and supporting smallholder farmers to enhance their productivity, while addressing climate change.
11. Access to financial services. RLEEP supported the establishment of 637 village savings and loan associations (VSLAs), linking formal financial institutions and savings and credit cooperatives. VSLAs increased smallholders' access to finance, through direct access to loans or through financial institutions. TRADE will strengthen access to finance through VSLAs and financial institutions.
12. Farm business schools (FBSs). Under RLEEP, 20,974 lead farmers graduated from FBSs. These have been a useful tool for transforming participants' mindsets from subsistence farming to agribusiness. TRADE will thus scale up and strengthen the FBS curriculum to equip smallholder producers and non-farmer actors with business skills.
13. The agricultural commercialization grants allowed RLEEP to reach 37,500 households, against its target of 24,000. Good results were achieved due to robust intervention systems, competitive selection processes and stringent performance evaluation of grant recipients. These lessons are reflected in the design of TRADE's Agricultural Commercialization and Innovation Fund (ACIF).

II. Programme description

A. Programme objectives, geographic area of intervention and target groups

14. TRADE focuses on promoting climate-smart agriculture and nutrition mainstreaming in all programme activities, in line with SO1 of the 2016-2022 country strategic opportunities programme (COSOP): "smallholder households become resilient to natural shocks and enhance food and nutrition security". It also responds to the COSOP's SO2: "smallholder households access remunerative markets and services" by focusing on commercial value chains.
15. Programme objectives. TRADE's overall goal is to contribute to improving the sustainable livelihoods of rural people in Malawi. The programme's development objective is increased VC commercialization and the resilience of rural poor and smallholder producers. This objective will be achieved by supporting: climate-smart interventions; access to commodity markets; access to improved rural financial services, market and business development services; and enhanced private sector partnerships.

16. Geographic areas of intervention. TRADE will initially cover 11 districts¹ and seven commodities (groundnuts, soybean, sunflower, Irish potato, dairy, beef and honey). The aim is to optimize RLEEP's impact and consolidate and scale up successes and good practices in the 11 districts, while bringing in additional commodities, which may lead to expansion to new districts.
17. Targeting and target groups. TRADE is expected to reach about 300,000 households (1.32 million people), of which 127,000 households will be direct beneficiaries and 173,000 households will benefit indirectly from access to roads and employment opportunities. It will target very poor households, women and youth. TRADE will focus on rural households, with the potential to improve their participation in the commercialization of selected commodities, and to graduate from poverty. TRADE will target at least 55 per cent women and 50 per cent youth. TRADE's targeting strategy is focused on nutritionally vulnerable people.

B. Components/outcomes and activities

18. The programme will have three components:
 - (i) Component 1 – sustainable producer-private partnerships. The objective is to support smallholder farmers organized in producer organizations/groups to improve their productivity and market linkages, in partnerships with small and medium-sized enterprises, in the form of 4Ps or similar partnerships.
 - (ii) Component 2 – enabling environment for smallholder commercialization. The objective is to improve the enabling environment for commercial agriculture, including policies, regulatory framework and infrastructure development.
 - (iii) Component 3 – institutional support, programme management and coordination. The aim is to strengthen the capacity of smallholder farmers to participate in commercial relationships, by developing an ecosystem of services, creating inclusive and equitable arrangements.

C. Theory of change

19. TRADE's theory of change is based on the hypothesis that by increasing the integration and participation of smallholder producers in commercially profitable VCs and enhancing their resilience to climate change, combined with improving nutrition outcomes, the programme will sustainably improve rural people's livelihoods. This will be achieved through the following outcomes: (i) increased sales and revenue for smallholder producers, increased productivity and quality of products and adoption of climate-smart agriculture technologies/practices; (ii) a conducive environment created for the commercialization of smallholder agriculture; and (iii) an enhanced institutional performance and knowledge base for VC programming.

D. Alignment, ownership, and partnerships

20. Alignment. TRADE is aligned with: Sustainable Development Goal (SDG) 1 and SDG 2, through its overall goal of improving the sustainable rural livelihoods ; SDG 5 and SDG 8, by promoting gender equality and youth inclusion; SDG 13, by strengthening environmental sustainability and the climate resilience of selected VCs and infrastructure; and SDG 17, by supporting 4Ps.
21. Alignment with IFAD policies is also ensured with regard to mainstreaming gender, youth and climate, including through IFAD's Gender Action Plan 2019-2025 and contribution to the IFAD Rural Youth Action Plan 2019-2021.

¹ Mchinji, Ntchisi, Dedza, Blantyre, Kasungu, Nkhata Bay, Rumphi, Karonga, Lilongwe, Thyolo and Chitipa.

22. Country ownership and alignment with national priorities. TRADE will contribute to Malawi's NAP (2016-2020) and NAIP (2018-2023), its Vision 2020 and the Malawi Growth and Development Strategy 2017-2022. The NAP targets profitable commercial farming through specialization of smallholder farm production, output diversification and value addition in downstream VCs to which TRADE is aligned.
23. Partnerships. Partnership opportunities include the World Food Programme's "Food Assistance for Assets" and "Purchase for Progress" and its goat VC programmes, which focus on youth and women. Synergies will also be built, in component 1, with the African Development Bank-financed Climate Adaptation for Rural Livelihoods and Agriculture and the United Nations Development Programme's Malawi Innovation Challenge Fund.

E. Costs, benefits and financing

Programme costs

24. Total programme costs, including price and physical contingencies, duties and taxes are estimated at US\$125.4 million for a six-year implementation period. The cost breakdown by component is as follows: component 1 – US\$60.2 million; component 2 – US\$53.4 million; and component 3 – US\$11.8 million.
25. Subcomponents 1.2 and 2.2 are partially counted as climate change adaptation finance. The total amount of IFAD climate finance for TRADE is preliminarily calculated as US\$14.8 million, representing 21 per cent of IFAD programme costs.
26. A summary breakdown of programme costs, by component and financier, is presented below.

Table 1

Programme costs by component and subcomponent and financier

(Thousands of United States dollars)

	IFAD loan		IFAD grant		OFID Loan		Private sector		Beneficiaries		Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Sustainable producer-private partnerships														
1.1. Sustainable intensification and value chain commercialization	18 596	43.6	6 878	16.1	-	-	11 665	27.4	4 005	9.4	1 477	3.5	42 620	34.0
1.2. Capacity development of farmers and farmer-based organizations	10 770	61.4	3 983	22.7	-	-	-	-	-	-	2 795	15.9	17 547	14.0
Subtotal	29 366	48.8	10 861	18.1	-	-	11 665	19.4	4 005	6.7	4 271	7.1	60 167	48.0
2. Enabling environment for smallholder commercialization														
2.1. Enabling environment for commercial agriculture	1 794	61.0	664	22.5	-	-	-	-	-	-	486	16.5	2 944	2.3
2.2. Enabling infrastructure	12 232	24.3	4 524	9.0	20 013	39.7	-	-	4 337	8.6	9 328	18.5	50 433	40.2
Subtotal	14 026	26.3	5 188	9.7	20 013	37.5	-	-	4 337	8.1	9 813	18.4	53 377	42.6
3. Institutional support, programme management and coordination														
3.1. Capacity-building and value chain governance	2 096	61.0	775	22.5	-	-	-	-	-	-	567	16.5	3 438	2.7
3.2. Programme management and knowledge management	5 620	67.1	2 079	24.8	-	-	-	-	-	-	677	8.1	8 376	6.7
Subtotal	7 716	65.3	2 854	24.2	-	-	-	-	-	-	1 245	10.5	11 814	9.4
Total	51 108	40.8	18 903	15.1	20 013	16.0	11 665	9.3	8 341	6.7	15 329	12.2	125 358	100.0

Table 2

Programme costs by expenditure category and financier

(Thousands of United States dollars)

	IFAD loan		IFAD grant		OFID loan		Private sector		Beneficiaries		Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment costs														
A. Funds	14 617	43.8	5 406	16.2	-	-	9 344	28.0	4 005	12.0	-	-	33 372	26.6
B. Works	11 827	25.1	4 374	9.3	18 285	38.8	-	-	4 072	8.6	8 518	18.1	47 077	37.6
C. Consulting services	116	61.0	43	22.5	-	-	-	-	-	-	31	16.5	191	0.2
D. Studies	2 025	61.0	749	22.5	-	-	-	-	-	-	548	16.5	3 322	2.7
E. Training	5 322	61.0	1 969	22.5	-	-	-	-	-	-	1 441	16.5	8 732	7.0
F. Equipment and materials	643	41.6	238	15.4	371	24.0	-	-	37	2.4	256	16.5	1 544	1.2
G. Workshops	831	61.0	307	22.5	-	-	-	-	-	-	225	16.5	1 363	1.1
H. Meetings	448	61.0	166	22.5	-	-	-	-	-	-	121	16.5	736	0.6
I. Vehicles	880	61.0	326	22.5	-	-	-	-	-	-	238	16.5	1 444	1.2
J. Technical assistance	8 645	45.4	3 198	16.8	1 356	7.1	2 321	12.2	228	1.2	3 295	17.3	19 043	15.2
Total investment costs	45 355	38.8	16 775	14.4	20 013	17.1	11 665	10.0	8 341	7.1	14 674	12.6	116 823	93.2
II. Recurrent costs														
A. Travel costs	403	61.0	149	22.5	-	-	-	-	-	-	109	16.5	662	0.5
B. Operation and maintenance	691	61.0	256	22.5	-	-	-	-	-	-	187	16.5	1 134	0.9
C. Salaries	4 033	68.9	1 492	25.5	-	-	-	-	-	-	333	5.7	5 857	4.7
D. Allowances and benefits	527	73.0	195	27.0	-	-	-	-	-	-	0	-	721	0.6
E. Office & general expenses	99	61.0	37	22.5	-	-	-	-	-	-	27	16.5	162	0.1
Total recurrent costs	5 752	67.4	2 128	24.9	-	-	-	-	-	-	655	7.7	8 535	6.8
Total	51 108	40.8	18 903	15.1	20 013	16.0	11 665	9.3	8 341	6.7	15 329	12.2	125 358	100.0

Table 3

Programme costs by component and subcomponent, by programme year

(Thousands of United States dollars)

	2020		2021		2022		2023		2024		2025		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Sustainable producer-private partnerships														
1.1. Sustainable intensification and value chain commercialization	501	1.2	762	1.8	10 581	24.8	10 522	24.6	10 633	24.9	9 620	22.6	42 620	
1.2. Capacity development of farmers and farmer-based organizations	2 384	13.6	3 362	19.2	3 744	21.3	3 441	19.3	2 729	15.6	1 888	10.8	17 547	
Subtotal	2 885	4.8	4 124	6.9	14 324	23.8	13 964	23.2	13 362	22.2	11 508	19.1	60 167	
2. Enabling environment for smallholder commercialization														
2.1. Enabling environment for commercial agriculture	505	17.2	847	28.8	747	25.3	618	21.0	206	7.0	20	0.7	2 944	
2.2. Enabling infrastructure	3 373	6.7	7 018	13.9	8 175	16.2	11 892	23.6	11 073	22.0	8 902	17.7	50 433	
Subtotal	3 878	7.3	7 865	14.7	8 922	16.7	12 510	23.4	11 279	21.1	8 923	16.7	53 377	
3. Institutional support and programme management and coordination														
3.1. Capacity-building and value chain governance	440	12.8	857	24.9	738	21.5	466	13.6	393	11.4	544	15.8	3 438	
3.2. Programme management and knowledge management	1 904	22.7	1 352	16.1	1 336	16.0	1 427	17.0	1 307	15.6	1 049	12.5	8 376	
Subtotal	2 344	19.8	2 210	18.7	2 075	17.6	1 892	16.0	1 700	14.4	1 593	13.5	11 814	
Total	9 107	7.4	14 199	11.5	25 321	20.2	28 366	22.6	26 341	21.0	22 024	17.5	125 358	

Project financing and cofinancing strategy and plan

27. TRADE will be financed by: an IFAD loan (US\$51.1 million, on highly concessional terms); an IFAD grant (US\$18.9 million); the Government of Malawi (US\$15.3 million); an OPEC Fund for International Development (OFID) loan of US\$20.0 million; the private sector (US\$11.7 million); and programme beneficiaries (US\$8.3 million).

Disbursement

28. The programme management unit (PMU) will manage TRADE special accounts (in United States dollars) for external financing, and will prepare all disbursement requests and justifications. Local currency accounts will be maintained at commercial banks and will not be subject to Credit Ceiling Authority arrangements. The Government will fund a counterpart account managed by the PMU, to be prefunded on a quarterly basis based on cash flow forecasts. These funds will finance the government portion of expenditure with respect to taxes and duties, in cases in which waivers do not apply.

Summary of benefits and economic analysis

29. TRADE is expected to reach 1.32 million people. The programme will initially support investments in the dairy, red meat, Irish potato and honey VCs. The programme may later support the cassava, red sorghum and goat VCs, and provide some support to the legume VCs, covered under the recently closed RLEEP.
30. Programme profitability indicators. TRADE's overall economic internal rate of return (EIRR) is estimated at 18.9 per cent. The economic net present value (ENPV) is 62.4 billion Malawian kwacha (US\$84.4 million). As the ENPV is positive and EIRR is above the social discount rate (SDR), the project is deemed economically viable and acceptable for investment.
31. Sensitivity analysis. The sensitivity analysis assessed the robustness of proposed interventions. The proxies analysed were: reduction of programme benefits; increase in programme costs; and delays in the accrual of programme benefits by one and two years. The results show that a reduction of programme benefits of up to 20 per cent does not jeopardize TRADE's economic viability. However, were benefits to be reduced by 30 per cent, the EIRR of the project would fall below the SDR, and net present value would fall below zero, rendering programme interventions no longer worthy of investment. An increase of programme costs of a maximum of 30 per cent would not seriously jeopardize TRADE, as its ENPV would remain positive and its EIRR would continue well above the SDR. Finally, a delay in accrual of programme benefits of two years would not compromise TRADE's economic profitability.

Exit strategy and sustainability

32. Exit strategy mechanisms are largely embedded in the design of each of TRADE's (sub)components, as follows:
 - (i) Sustained outcomes, through establishment of commercial partnerships – such as the market-led producer-private partnerships – are likely to continue to exist and provide benefits to both private sector and smallholder producers. District-level commodity platforms will continue to foster relationships between farmers, private businesses and local government. Interventions to strengthen resilience to environmental conditions and climate change will support viable VCs.
 - (ii) In terms of policies, advanced trade and export policies and stakeholder dialogue – through national VC platforms – will enable a positive impact in commercialization. A regulatory framework for supply contracts will enhance trust between VC actors and ultimately safeguard programme investments.

- (iii) Institutional capacity will be built for implementing and monitoring VC development activities, which is critical for the continuity of technical support to beneficiaries and partnerships upon programme completion.

III. Risks

A. Programme risks and mitigation measures

33. At country level, the following risks have been identified that could potentially impact smooth start-up, implementation and achievement of intended development objectives and long-term impacts.

Table 4
Risks and mitigation measures

<i>Risks</i>	<i>Risk rating</i>	<i>Mitigation measures</i>
Political/ governance	Medium	Submission of programme for Executive Board approval in December 2019, several months after local elections.
Macroeconomic	Medium	Community-based implementation and mobilization of cofinancing to address potential exchange rate deterioration and inflation.
Sector strategies and policies	Low	IFAD engagement in several donor committees, such as the Donor Committee on Agriculture and Food Security, and the Development Partners for Social Protection coordination group.
Institutional capacity	Medium	TRADE will support capacity-building and will equip districts with resources. It will also tap into the available pool of service providers who participated in RLEEP's Agricultural Commercialization Fund and those trained by other development partners.
Portfolio	Medium	Implementation of the Sustainable Agricultural Production Programme is satisfactory; the Financial Access for Rural Markets, Smallholders and Enterprise Programme and the Programme for Rural Irrigation Development are moderately satisfactory. IFAD supervision improves the performance and participation of programmes in in-country policy dialogue.
Fiduciary		
Financial management	Medium	TRADE's financial management arrangements incorporate several measures to reduce financial management risks to acceptable levels. In particular, payments for interventions implemented by decentralized government staff will be centralized at the PMU. A grant manager will be appointed to coordinate and manage all TRADE contracts with grant recipients, based on a grant manual.
Procurement	High	Development of standard bidding documents; training of the Ministry of Local Government and Rural Development's procurement officer; ensure that the procurement officer and the Ministry's Internal Procurement Committee are part of the annual workplan and budget (AWP/B) process.
Environment and climate	High	Investment in climate-smart technologies; training to increase smallholder and public/private sector capacities to adapt to climate change effects.
Social	High	Climate change fact sheets for VCs to provide climate change adaptation options that will complement the Environmental and Social Management Plan (ESMP).
Other specific risks	Medium	Mapping of VC interventions and potential partnerships; transparent management of project activities, especially procurement activities and grant administration; due diligence for grant recipients.
Overall	Medium	

B. Environment and social category

34. Environment and social sustainability and climate resilience. Intensification and expansion of VCs comes with environmental, social and climate risks. The risks have been analysed within the framework of the Social Environment and Climate Assessment Procedures (SECAP) review note, and mitigation measures have been identified and mainstreamed into design. An Environmental and Social Management Framework (ESMF) has been developed and relevant environmental and social impact assessments (ESIAs) will be undertaken during implementation for selected infrastructure investments, in compliance with both national and SECAP requirements.
35. The programme is classified as category A. Potential negative impacts will be site-specific, and adequate mitigation measures and opportunities are identified

within the SECAP review note, the draft ESMP and the ESMF. Particular attention is given to promotion of greener technologies, together with good environmental and social management practices along all VC segments from pre-production to post-harvest solutions. A number of features aimed at addressing social and environmental opportunities in each VC are foreseen in subcomponent 1.2.

C. Climate risk classification

36. The climate risk category is high. Climate projections indicate an increase in drought, exacerbating ongoing degradation processes and resulting in increased erosion, as well as changes in pasture and feed availability for livestock. Malawi is highly exposed and vulnerable to climate change, with the intended programme outcomes having a high risk of being negatively affected by climate change. Primary risks relate to increasing temperatures and more erratic rainfall, leading to changes in pasture and feed availability for livestock. The increasing occurrence of extreme events poses an erosion risk to productive lands and public infrastructure, with prolonged dry spells adversely affecting productivity.
37. A basic climate risk analysis is provided within the SECAP review note to inform the programme on best mitigation measures, including measures to reduce greenhouse gas emissions in the dairy and beef VCs. Climate factsheets for each VC will be drawn up under the Adaptation for Smallholder Agriculture Programme.

D. Debt sustainability

38. Malawi's external debt is assessed to be at moderate risk of distress, with some absorption space. Fiscal discipline should be strengthened to avoid accumulation of domestic debt at high interest rates. To enhance resilience, efforts should be made to further diversify the economy, broaden the revenue base and strengthen public financial management.²

IV. Implementation

A. Organizational framework

Programme management and coordination

39. The lead implementing agency for TRADE is the Ministry of Local Government and Rural Development, which will work closely with a wide range of stakeholders from public institutions and the private sector to commodity platforms, commodity up-takers and other institutions supporting agribusiness in Malawi.
40. Programme oversight will be provided by a programme steering committee comprising both public and private sector members, chaired by the Ministry's permanent secretary. The programme steering committee's multisectoral composition will ensure harmonization and integration of support in government programmes and ensure its contribution to the Government's strategic priorities and sectoral development objectives.
41. Implementation and coordination of the programme will be undertaken by the PMU, headed by a national programme coordinator reporting to the Ministry's permanent secretary. The PMU will be granted authority to undertake all financial and procurement management activities, lead and supervise programme implementation, and provide specialist technical inputs. The PMU staff will be recruited competitively under performance-based contracts. Its recruitment and contracting will require IFAD approval. The programme will ensure that activities at district level are fully owned by the district councils.

² International Development Association and the International Monetary Fund. *Malawi: Joint Debt Sustainability Analysis – 2018 Update*.

Financial management, procurement and governance

42. Financial management. The Ministry of Local Government and Rural Development has prior experience in the implementation of IFAD-funded programmes, including RLEEP. IFAD will provide comprehensive training to the finance team in the PMU on IFAD's financial management requirements and disbursement procedures, as well as providing coaching during supervision missions.
 43. Budgeting. The programme will be implemented based on approved AWP/Bs. The budgeting process will be undertaken jointly between the PMU, participating programme partners and implementing agencies.
 44. Internal controls. At programme level, internal controls will be established to ensure that programme resources are utilized for their intended purposes and are reaching the intended beneficiaries. Procedures and record maintenance at all levels will be documented in the programme implementation manual and consistently applied. The programme implementation manual also includes specific provisions regulating set-up of internal controls, effective monitoring and review of transactions, accounting software requirements, and all other financial management practices, with guidance notes.
 45. Accounting and reporting. The PMU will be the financial management and reporting hub, responsible for posting, reconciling and reporting on programme finances. Accounting of TRADE will be done through an off-the-shelf computerized accounting software package, to be customized to generate financial reports for government and IFAD. The programme will use cash basis of accounting standards.
 46. Internal audit. As part of the Ministry of Local Government and Rural Development, the PMU will be subject to its internal audit procedures. In the event that the department is unable to include TRADE in its annual internal audit programme, TRADE may contract a private internal audit firm to provide more specific support for internal review of controls, proposed improvements and issuance of recommendations.
 47. External audit. TRADE will be audited by the National Audit Office and subject to compliance with the audit submission deadlines, so as to avoid potential sanctions, including the suspension of disbursements. In accordance with IFAD's financial reporting and audit requirements, TRADE will prepare and submit annual financial statements to IFAD, audited by the National Audit Office, together with the auditor's opinion and management letter, no later than six months following financial year-end.
 48. Procurement. Procurement of goods and services to be financed from the loan will be subject to Government of Malawi procedures. A procurement specialist will be recruited to support the PMU and the Ministry of Local Government and Rural Development, and to advise on the conformity of government procedures with IFAD procurement guidelines.
- B. Planning, monitoring and evaluation, learning, knowledge management and communications**
49. Planning. The results-based AWP/B will guide programme implementation, including in defining programme activities and outputs (linked to the logical framework), defining funding requirements and setting targets. The previous year's performance and challenges will guide development of the AWP/B for the subsequent year. The annual planning and implementation cycle will be aligned with the Government's planning cycle.
 50. The PMU will be responsible for the preparation of AWP/Bs, in collaboration with VC specialists, field coordinators and district councils. Planning at district and

community levels will be through participatory processes engaging farmer-based organizations and beneficiaries, thus including disadvantaged groups.

51. Monitoring and evaluation (M&E). TRADE's M&E system will be guided by the theory of change and logical framework. The system will support data collection, collation and analysis at different levels, enabling programme managers to identify implementation bottlenecks, make informed decisions and take timely corrective actions to improve programme performance. An M&E plan will be developed during start-up to define concepts, roles and responsibilities. The indicator targets values – estimated at design, based on the economic and financial analysis and RLEEP results – will be confirmed during the start-up phase, based on baseline survey results. M&E functions will be supported by a management information system. An information and communications technology-based system will be developed to ensure real-time access to information in areas where internet access is unreliable. A geographical information system will be integrated. Beneficiaries will be able to provide feedback through an SMS (text messaging) platform.
52. Reporting. Field coordinators will prepare monthly reports based on the information collected. Quarterly reports will be prepared by service providers. Reporting on key programme indicators and disaggregation by sex and age will be required and clearly set out in the service providers' contracts. The PMU will prepare biannual and annual reports capturing physical progress (outputs and outcomes), as well as expenditure against budget.

Innovation and scaling up

53. TRADE's activities aim at the commercialization of the selected VCs, piloting partnership opportunities to evaluate their effectiveness and profitability before scaling up. The ACIF will give priority to investments by VC actors that will bring innovations to VC development and create sustainable market linkages for smallholder producers. Once these innovations prove profitable in specific VCs, extension planning areas and districts, they will be replicated in other areas. Likewise, the successful VC development and innovations implemented under RLEEP will be scaled up by TRADE to other extension planning areas and districts.

C. Implementation plans

Implementation readiness and start-up plans

54. To enhance implementation readiness, implementation in the initial 11 districts in year 1 and 2 will be built on the existing VC gap analysis performed upon closure of RLEEP.
55. SECAP compliance. Due to the scope of roads rehabilitation, the programme has been assigned environmental and social category "A", calling for preparation and dissemination of an ESMF, identifying potential risks and mitigation measures and specifying selection criteria for the siting of subprojects. The ESMF also provides the relevant guidance to the PMU for site-specific ESMPs/ESIAs, in compliance with IFAD's SECAP requirements.

Supervision, midterm review and completion plans

56. The project will be directly supervised by IFAD.
57. TRADE shall conduct an end-of-programme evaluation to assess its impact on the targeted beneficiaries. This will provide valuable information in preparing the programme completion report and lessons for future programming.

V. Legal instruments and authority

58. A programme financing agreement between the Republic of Malawi and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be tabled at the session.

59. The Republic of Malawi is empowered under its laws to receive financing from IFAD.
60. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

61. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Malawi in an amount of fifty one million one hundred thousand United States dollars (US\$51,100,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a Debt Sustainability Framework grant to the Republic of Malawi in an amount of eighteen million nine hundred thousand United States dollars (US\$18,900,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hounbo
President

Negotiated financing agreement

(To be tabled at the session)

Logical framework³

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	Project End Target	Source	Frequency	Responsibility	
Outreach	1Persons receiving services promoted or supported by the project (by gender, age)				Project records	Annually	PMU	
	Total			1,320,000 ⁴				
	1a Number of households (HHs) reached ⁵							
	Households			300,000				
	1b Estimated corresponding total number of households members				Project records (based on the average of 4.4 members per HHs census 2018)			
	Households members			1,320,000				
Project Goal Improved sustainable livelihoods of rural people in Malawi	Number of women reporting improved quality of their diets - COSOP ⁶				Baseline, mid & end line survey	Baseline, mid-term and completion	PMU	Economic and political stability; Partnership created will continues after programme closure
	Number of women			100,000 ⁷				
	Percentage of participating households with increase properties and assets							
	% household			80%				
Development Objective Increased value chain commercialisation and resilience of rural poor and smallholders producers	Average increase in production of targeted commodities				Baseline, mid & end line survey	Baseline, mid-term and completion	PMU	
	% increase			96.57% ⁸				
	Smallholders producers income level increase, derived from targeted commodities							
	% increase			79.88% ⁹				
	Percentage of women reporting improved empowerment index at project level							
	Percentage of women			70%	Pro-WEAI assessments	Baseline and completion	PMU	
Component 1: Sustainable Producer-Private Partnerships								
Outcome 1 Smallholder producers increased access to market	Number of small holder producers with improved access to markets (by gender, age)				Outcome surveys	Yearly/Mid-term and completion	PMU	Availability and interest of service providers with experience in VC and facilitating market linkages; Sufficient demand of the products for the selected VCs
	No. small holders producers		0	100,000 ¹⁰				
	Pro- Women's Empowerment in Agriculture Index					Baseline, mid-term, completion		
	Number							
Output 1.1 Win-win partnerships between smallholder producers and public and private entities supported	Number of formal partnerships/agreements or contracts with public or private entities				Data from service providers/Project records	Yearly/Mid-term	PMU	Agribusinesses are willing to engage with smallholder farmers
	No. of agreements			25				
Output 1.2 Strengthened business skills of smallholder producers to engage in commercial agriculture	Number of persons trained in income-generating activities or business management (CI 2.1.2 ¹¹) COSOP (by gender, age)				Data from service providers/Project records	Yearly/Mid-term	PMU	Smallholder farmers willingness to allocate time for training; Existence of FBOs
	Total		0					

³ Poverty data to be disaggregated by the categorization of the poor by the Malawi National Support Policy

⁴ 55% female, 50% youth

⁵ 20% women-headed households

⁶ This indicator will contribute to the COSOP indicator "smallholder households reporting decreased incidence of hunger, measured by the number of meals per day". The survey will be complemented by questions on food items consumed following the Minimum Dietary Diversity for Women questionnaire and on the number of meals per day

⁷ About 80% of total households targeted (including RLEEP HHs)

⁸ Average production increase based on EFA Production Analysis (G) Improved production

⁹ Average income increase based on EFA Income Analysis (F)

¹⁰ 55% female, 50% youth

¹¹ 55% female 50% youth

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	Project End Target	Source	Frequency	Responsibility	
Output 1.3 Strengthened FBOs skills for collective services and market linkages	Number of rural producers' organizations supported (CI 2.1.3) ¹²				Data from service providers/Project records	Yearly/Mid-term	PMU	
	No. of FBOs ¹³	171	411	582				
Output 1.4 Smallholder producers' and FBOs access to financial services increased	Number of people and FBOs linked/accessing financial services through FARMSE				Data from FARMSE	Yearly	PMU and FARMSE PMU	FARMSE is successful in increasing the outreach of financial service providers in rural areas; Rural financial services access and usage improved through ACIF
	FBOs			25%				
	Total	0		62,000				
Outcome 2 Smallholder producers' increased productivity and product quality	Number of persons/households reporting an increase in production (CI 1.2.4) COSOP ¹⁴				Data from service providers/Project records	Yearly/Mid-term	PMU	Smallholder farmers willingness to adopt technologies
	No. of households	0		62,300 ¹⁵				
Output 2.1 Strengthened production skills of smallholder producers to engage in commercial agriculture	Number of persons trained in production practices and/or technologies (CI 1.1.4) crop and livestock COSOP ¹⁶				Data from service providers/Project records	Yearly/Mid-term	PMU	
	Total	0		89,000				
Outcome 3 Smallholder producers' adoption of climate smart agriculture enhanced	Percentage of households reporting adoption of sustainable and climate resilient technologies and practices (CI 3. 2. 2)				Outcome surveys	Mid-term	PMU	Programme is able to mainstream commercial Climate change resilience technologies, in part based on SAPP and PRIDE experiences
	% of HHs			70%				
Output 3.1 Increased knowledge and access to CSA technologies/practices	Number of groups supported to sustainably manage natural resources and climate-related risks (CI 3.1.1) COSOP				Project Data from service providers/Project records	Mid-term	PMU	
	Total No. groups	0		5,000 ¹⁷				
	Total members of groups	0		127,000 ¹⁸				
Component 2: Enabling Environment for Smallholder Commercialization								
Outcome 4 Enabling environment improved for commercialisation of smallholder agriculture	Percentage of small holders producers reporting improved agri- business environment ¹⁹							
	% of HHs			75%				
Output 4.1 Increased policy Influencing capacity and formal business arrangements	Number of functioning multi-stakeholder platforms supported (CI policy 2) COSOP				Project records/Routine M&E activities	Yearly/Mid-term	PMU	
	Total No. of platforms	3		4				
Output 4.2 Infrastructure to support VCs development build/rehabilitated	Number of market, processing or storage facilities constructed or rehabilitated (CI 2.1.6)				Project records/Routine M&E activities	Yearly/Mid-term	PMU	Delivery mechanisms available to ensure capacity of GoM to construct 1000 km of roads and the infrastructure
	Total storage	0		68				
	Number of kilometres of roads constructed, rehabilitated or upgraded (CI 2.1.5)							
	Total Kilometre	0		1,000				
Component 3: Institutional Support and Programme management and coordination								
Outcome 5 Institutional performance and knowledge management is improved	Percentage of government officials and staff reporting increased ability ²⁰ in knowledge on VC development				Project records/Routine M&E activities	Yearly/Mid-term	PMU	Local government and support organisations' commitment to sustain value chain development
	% of government officials and staff	0		300				
Output 5.1 Strengthened institutional capacity and knowledge mgt. for VC development	Number of government officials and staff trained in value chain development				Project records/Routine M&E activities	Yearly/Mid-term	PMU	
	No. of staff	0		400				

¹² 171 total FBOs in RLEEP

¹³ 30% women in leadership position, 55% female and 50% youth

¹⁴ Calculated on the 89000 new HHs beneficiaries and 70% adoption rate based on RLEEP achievements

¹⁵ 80% of new beneficiaries

¹⁶ 55% female and 50% youth

¹⁷ 55% female and 50% youth

¹⁸ RLEEP 4 VCs beneficiaries + new beneficiaries

¹⁹ Policies, regulations, MoUs, contracts and market information

²⁰ Will be assessed through a questionnaire to staff to check VC development skills increased.